

STORA ENSO
ANALYST PRESENTATION
5 SEPTEMBER 2007

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Thank you very much. Hello everyone. Welcome to this call, and thank you all for participating, especially on such short notice. As was introduced by the Operator, the topic today is the press release which we issued this morning at 9:00 Finnish time. I hope all of you have had a chance to see it. If not, of course, it's available on our website now, as are the slides, which will be referred to during this event.

If you're not connected to the webcast and just listening in on the conference call, it would be helpful if you could refer to the slides, which are available through the investor section of our website.

The format today is that Jouko Karvinen, our CEO, and Hannu Ryooponen, our Deputy CEO and CFO, will touch on a few highlights, and they can explain the background and the implications of the announcement today, and then we'll open it up for interactive questions in the usual way.

So with that introduction, I'll turn the microphone over now to Jouko Karvinen. Thanks.

Jouko Karvinen

Chief Executive Officer
Stora Enso

Thanks, Keith. Good afternoon, everybody, and thank you for taking the time to listen and talk to us today. We'll try to be fairly brief on the presentation part. You've read the material on the press release.

If we start, I'll talk more about the organisation and the objectives of that, whereas Hannu will then walk you through the impairment test where, which was also announced today, the reorganisation is triggering events. That's why we come out today with the impairment test instead of the normal third quarter.

If we can go to page 4 on the slides, the driving forces of the new organisation. Throughout my five-month tenure as the CEO and obviously before that in the three

months, when I experienced the Company from inside then, with a lot of respect for the earlier models, there's a couple of issues that concerned me. One, that I felt we were fairly complex. When I asked questions time and again on specific subjects or issues to be solved, who will get this done, I wasn't always totally clear on that.

I also felt, having analyzed from customer groups towards the internal value chain, that we had quite a few layers of management and a complex governance structure. Decisions, getting decisions made and, more important, getting them executed I feel has not been fast enough to be direct, and therefore that was one key thought in reshaping the structure.

Externally, and this is a bit of a repetition to you, we've all heard on the shorter-term cost issues, thinking very much of the wood costs, the winter impact of the Russian duties, nobody talks about energy this year whereas last year it was an issue. There is a lot of cost pressures on the industry, which is a clear challenge.

In certain segments, and what I mean to say is segment, I'll give you an example, magazine Europe, there is a supply/demand issue that does need to be solved. Currency this year, or in the past more than this year, has not exactly helped us, but particularly the weakness of the U.S. dollar.

And therefore I've said for quite a few months already that I see that there is need for further capacity reduction, but also that that may on its own, on a company-by-company basis, solve the equation. But that's been done for quite a few years already and the returns of the industry haven't been there.

If we move to the next slide, 5, therefore then the objectives of the new organisational structure. It's very clear and simple on who's getting what done. Why -- what does the inner responsibility mean? What it means amongst other things is when the environment changes, the costs or markets, that you do need to take proactive action to respond to those changes. I said as an example that our strategy will not be based on hoping for better times on magazine pricing and so forth.

Speed up decision making in the organisation by de-layering. Obviously, I now have in many areas a lot more direct access and leadership position for the new business areas. And I think it will hopefully then allow me to push faster decision making and execution there.

Transparency, to the outside, to your community, but also inside Stora Enso. The fairly specific organisation, if you look at the fact that North America is a reporting unit, magazine separate from newsprint, consumer board from industrial packaging, will give more transparency.

And Hannu will talk about it more but obviously, once we come out with the historical numbers on October 15 and the third quarter on the 25th, you will also get a clearer picture on which businesses in Stora Enso have and are creating value, which needs to be correct.

North America, clear focus on that, for the simple reason that I'm convinced that the synergies within the North American market and business are clearly significantly stronger and bigger than the transatlantic synergies or the global synergies. In practical terms, John Gillen has reported to me before. Now he and the entire North American organisation reports to me on a P&L basis, whereas in the previous structure P&L was managed through multiple European base, global divisions and

BAs. This is another areas where I need more speed and determination to improve, whereas they've done some very good work.

On slide 6, which is actually titled reporting units, I won't repeat the reporting units. But I wanted to highlight that whereas myself, five months old in this job, and my colleague Hannu Ryypponen here, he's already two years old so to say, but we're still in this the outsiders. Through a fairly thorough process, I would dare to say, of my own assessment of these key people that I work with now eight months, all of them, a thorough view on their track record of delivering results in the past, but also through an independent management assessment we did on all these key people and a few others.

Those have been the basis of my decision, supported obviously by our Board, to select the new leadership team. I say new, six out of 10 are new in the Group executive. On the other side, they are all long-term Stora Enso people. Some of them had to compete for their job against an outside candidate. They got the job because they, based on the assessment, were the stronger candidate.

I think that has two benefits. One, the softer one is this is a demonstration to our organisation that it is possible to be successful at Stora Enso from a career point of view, and that's good for the future. And the other critical thing is that this team has been involved, and obviously is involved, in our portfolio strategy work throughout the year.

So they will start this morning where we stopped last night. It's not that we're going to a blank sheet of paper and restarting. Which, by the way, was one key reason why the timing of the organisation also was not first thing in April. I wanted to get a clear picture on what works well and functions and is successful, needs to be invested more, and the parts where we need to do different needs and find solutions as fast as we can.

Page seven shows three executive and functional roles. Hannu adding purchasing to his task, on top of the CFO and strategy role. Bernd Rettig, who was heading the publication division before, he's now takes the functional role with a lifetime experience in operations of pulp and paper, operations improvement, logistics, capital investments, strategically important, technology and R&D. And then Christer Agren comes in on HR and IT.

Clearly consolidating the functions under these three people, because I did want to somewhat limit the fact of the flexibility. And I will be so focused driving the businesses that I want some senior people to get many, many things done quickly also in the functional areas, so we get some continuity there.

If you accept, I will stop right here and move then the speech to Hannu on slide 8 on the impairment charge.

Hannu Ryoopponen

**Deputy CEO & CFO
Stora Enso**

Thank you, and good afternoon, everybody. First of all, the impairment charge, I'd like to stop and talk generally about it before we go into the details, just to make sure that we are on the same page and have a common understanding of what this is all about. But there's been questions, commentary today, already, that confuses an impairment charge with a restructuring charge.

A restructuring charge or provision relates to specific decisions about restructuring the organisation in terms of closures, major cost-cutting programmes, or whatever they might be. And that's a different activity, and there's none of that in today's disclosure and publicity.

What we have done is an impairment charge which is essentially an adjustment of our balance sheet to the perceived and expected earnings power of that balance sheet. And that is what an impairment charge is all about, very much in line with our accounting rules and how they should be done.

It is also a test, an impairment test that we do routinely in the third quarter every year, and we'd have done this year as well during September and any effects from it would have been announced in connection with the Q3 results at the end of October. However, the reorganisation of the company and this management that we're talking about, if defined by the accounting rules as a triggering event to do an impairment testing.

And what we have done here, we have done the impairment testing as a consequence of the triggering event, the reorganisation, and it has all been then kind of combined to an impairment testing that we would have done in the third quarter otherwise.

However, the biggest part of the EUR 1.3bn that we are accounting for in the third quarter. It's a consequence of the reorganisation, and primarily the de-layering of our organisation, or a flattening the reporting layers in it. And that brings, according to the impairment testing rules, the fact alone that we would be testing at lower levels of the organisation for possible impairment need for any assets.

And as I have tried to explain, that takes away some of other netting effects. It's been good and bad assets that you would have if you would do a test at a higher level of the organisation. A bit of technical aspect, and many of you I am sure are more familiar with it than I am, but just as a background. So this is not a restructuring event, but rather an impairment charge.

And as I mentioned already, the main driver has been the reorganisation itself, and then you have a few economic impacts. The wood cost increases, we have the magazine paper weak performance, rising interest rates, currency movement and so on. All of this we already talked about in connection with our Q2 result release in July. There's been nothing materially different from that date in terms of the outlook of these factors. But when then putting together the impairment test, they obviously have their impact compared to where the values were adjusted for last year in the third quarter, when we did the normal routine testing.

To facilitate then further work, we will be before, or at the latest on the 15th of October, releasing historical numbers, i.e., up to and including Q2 of this year, in line with the new segment reporting that will come about from the new organisation.

Also in connection with that, we would give the detailed attribution of the impairment charge to the various units and so on. So that that can be clearly seen.

One comment for you to keep in mind in your modelling is that the foreign exchange rate used in this impairment charge is the end of July numbers. The final charge will only be known at the end of December, when the then spot rate will be available and we can calculate the foreign exchange consequences from July through August and September, first of all, and then December for the full year.

I'm moving now on to slide 9, which gives some of the mathematical consequences of the impairment charges. As Jouko has reiterated and will reiterate, this has nothing to do with our performance as such. Our performance is stable. This is just an adjustment of the balance sheet to reflect that current performance expectations. And we have a EUR 100m tax impact from this, which will come through the tax line in the third quarter, as some of this is tax-deductible is the way to maybe explain it in various jurisdictions.

However, as we write down our assets, our depreciation will reduce with around EUR 100m. These are obviously all estimated numbers; they're not exact numbers. And the result of all of this is then that capital employed will reduce with EUR 1.2bn, as a consequence of this.

Our earnings per shares will go up 0.11 and our debt-to-equity ratio will worsen from 0.55 to 0.64. And our ROCE calculation would show an improvement, or an increase, of 1.4 percentage points. As I said, these are all totally mathematical as a consequence of the impairment testing, and they are obviously all non-cash as such.

As you can see on that slide also, our WACC on a Group level is 9.1 in this calculation, and if the WACC we now see as our key factor for calculations for the next year, assuming no other significant changes. However, the WACC on an either business- or country-specific basis ranges from 8.5 to 9.7, and the 9.1 is then a weighted average of all of those various individual WACCs.

And just to reiterate, all the reporting as of October 25th, i.e., the Q3 reporting, will be on the new basis and segments and so on, and before the 15th of October, we'll give you the historical numbers as well as the impairment charge attributions for you to be able to then when Q3 comes out, assess it's in line with the historical data reflecting the same structure.

And I think, Jouko, that was it for the moment. So, here, please. Thank you.

Jouko Karvinen

Thanks, Hannu. If we can move to the last slide, number 11, which is a summary of the current objectives for the short-term – objectives. Repeating myself, it is to strengthen the company and improve profitability. That is the number one and two and three objective. Of myself, across the Group executive team, I also said that the team is well aware of the fact that they started to continue on the improvement path at 7 a.m. this morning where we left it last night. So we all understand that we have no time to lose.

The coming days and weeks more will complete the new organisation. That's pretty well under its way on the lower levels. We need to clarify a few things. Also there we will not waste any time.

Then we do need to speed up execution of necessary structural changes. I'm pretty sure I'll get questions on when, and I will not be able to give you exact dates for reasons of basic laws on which way you comment, where do you come with this first and so forth. But let me assure that I myself, and maybe more important the new team, understands that we have no time to lose. We are in a hurry. We are in a hurry to do things, though, that create value to the shareholders. I will not do things just for the sake of being able to tell you or let alone the media that I did something. Be very quick there [in their occupation] where I've already said no, because I think that would have been value destructing.

But we're still in a hurry. The primary driver of my hurry and my team's hurry is that we do today operate in very difficult cost conditions, but we also operate in a fairly solid healthy economic market, especially in Europe. And we are of the view that making structural changes, though restructuring capacity closures or industry consolidation, will be a lot more difficult if we don't get going until the economy turns worse.

We do participate effectively as we possibly can on the industry restructuring or consolidation. But again, as much as I'm sure you'd like to know exact dates, even less there I cannot give you exact dates because that also depends on other parties.

With that, that's the news of today and I think, Keith, we should probably give the opportunity to the audience to ask questions.

Keith Russell

Yeah, sorry, we're ready now to take questions, operator. If you could please mention the instructions again. Thank you.

Question and Answer Session

Operator

Thank you. [OPERATOR INSTRUCTIONS]. We'll take the first question from Mr. Mark Wilde of Deutsche Bank. Please go ahead, sir.

Mark Wilde

Good morning, Jouko.

Jouko Karvinen

Good morning.

Mark Wilde

You mentioned several times participating in more industry consolidation and restructuring, and I wonder after eight months if you can provide us with kind of an initial critique of what you think the past decade has done right and wrong from a sense of regional and global consolidation in the industry.

Jouko Karvinen

Okay. Now, thanks for the question. It is a tough question because I don't want to absolutely come off as the guy who, after five months as a CEO, or as a management trainee before that, would know what the problems of the past 10 years have been.

Mark Wilde

Yeah, fair. Fair enough. [laughter].

Jouko Karvinen

But – I hopefully in a humble way express the concerns I have. One, I believe that the pure restructuring in a fairly fact- – well, one step back. This I say very boldly. This is not a global business. So I don't believe that global size means too much. In fact, if I look at the track record of the more focused players versus the less focused players, I think there's a proof point of the history where focus and regional presence is significant. Not necessarily global.

Two, I believe that some very hard work in Stora Enso and many other companies has been done in terms of restructuring, capacity reductions and so forth. Unfortunately, looking at the results of that effort, they have been disappointing. Even I understand.

Now, then you can argue, is it that good work has been done, it's been just a little too slow? Or is it that we're asked, the major players have reduced capacity, there always has been and is still to be individual small players who may be on different metrics decide to add a, for example, a new newsprint machine in the UK? So the capacity reduction efforts get diluted through that.

Now having said that, my present thinking is that rather than trying to be smart on the history, restructuring, i.e., capacity reduction, will have to happen still. We are right in the middle of it. I will not say that we've done our part. I don't believe in that thesis. Because if you just shuffle the present capacity in every which way you want in Europe or North America, I don't think it's going to do it. Because the demand-supply balance is wrong, is wrong.

Two, I would suggest that the industry needs to understand that what I said before, we are all in a hurry. After many, many years of trying, we live in a strong economy and market, relatively, in Europe. And if we don't get moving, if we don't get into action fairly quickly, we're going to have a dramatically more difficult task when the next downturn comes.

The point being, I think restructuring only may not do it, for two reasons. One, if it's too fragmented, the individual restructuring [move] for single assets or mills will just continue the path that isn't big enough and bold enough. And two, if we – and I say “we” without defining who “we” is – can create entities and have regionally

significant presence – and don't yet talk about market leadership, more on cost leadership, where you have multiple assets in a region that can serve the same customers. Many things become easier. One, you can reduce capacity and move a selected part of the volume to your other lower-cost assets. That's a significant contributor to the payback. Two, which I think is under-discussed almost, it's not just about the [wisdom] that how new the paper machine is or whatever. We need to look more and more on marginal costs on both fibre and energy. And if you're a significant enough player in a region, I think you can have a better return on those capacity reductions through marginal costing also, rather than if you're a one-asset player. Market leadership is a good thing locally, maybe regionally. And that could be a premium then, but I – to be blunt – I've told both my own people and the – what we're doing on potential work with other partners, I've said that in my books nothing can replace a clear goal for cost synergies and the longer-term goal of cost leadership. I don't think you can win without that. Sorry for the long answer.

Mark Wilde

Okay. Thank you.

Operator

We take your next question from Mr. Johan Swahn of Morgan Stanley. Please go ahead with your question.

Johan Swahn

Yes, good afternoon. A couple of questions. Maybe firstly on this impairment. Do you reckon this gives – this sort of impairment itself – does it give you better flexibilities or selling assets or making other structural changes? That's the first one. The second one is on your ROCE target, 14 per cent, could quite easily back out the EBITDA number that you sort of were guiding for a target, EBITDA number of a cycle. And that number is now I guess 260m lower today than it was yesterday. It would be interesting to hear your comments on that. And then thirdly, on Mats Nordlander as head of Consumer Board and Merchants, why did you choose that combination? Thank you.

Hannu Ryoopponen

Okay. If I would try to answer the impairment-related – it's Hannu here, by the way – questions. If the impairment itself creates more flexibility of restructuring, I don't see that connection. I see it more connected to the organisational structure than to the impairment numbers as such. But maybe Jouko wants to, when he comments, comment on that specifically.

But then on your question about targets, our eternal performance targets on EBITDA level and operating levels will not change down for sure, or anywhere, because of the write-down of our capital base. That is mathematical consequences on a total level, but rest assured that every individual operating unit cannot go home and say, "Ah,

I've done my job because they wrote off my capital." That's not going to solve any of their problems or the targets that they will have to operate under.

So you're kind of analogy to a EBITDA reduction, it's wrong from our perspective. Mathematically I say that, but we're striving for performance rather than necessarily for adjusting to a new capital base.

Johan Swahn

Okay.

Jouko Karvinen

This is Jouko, if I may repeat a bit. First of all, on the operational earnings targets. That's what I'm driving with the team. Rest assured, even though your math is mathematically correct, their objective on earnings improvement did not change a penny because of this mathematical exercise.

Now, before you ask me then, if you do the maths the other way round doesn't that mean that your ROCE target should change. Well, let me be very clear there, look at the past seven years, or is it nine years since this Company announced the 13%, which is an over-the-cycle number. If you please accept that before I get this Company a lot closer to that number I will not announce a new individual percentage number. But it is important that we will not use my targets from the Board on operational earnings improvement [alone]. My team's targets have not reduced a penny because of this. Okay?

Then your first question about does it give me more flexibility. I think the valuation of our assets or somebody else's assets and so forth over the discount cash flow models and so forth, when you do those exercises, again, it's more maths afterwards what kind of gains or negative gains you would in a transaction book, if the transaction makes sense. But it is not that a book gain or book loss would be the deciding factor. In fact, I think the deciding factor is if we even argue who's going to own how much, whether it's a joint venture, merger, cash sale, minority participation, any other alternative is, is there a business case? Does a new combined entity have clear synergies? And I go back to my cost leadership things and so forth, before we – so that's not a driving factor.

Mats Nordlander he has actually three roles. I moved the Market Services function under him mostly because of the number of businesses reporting directly to me and his background and so forth. He's been running and building the Merchants. That role is clearly different than the business called Consumer Boards. The reality is Mats, through my own assessment and other people's assessment and his track record, is an exceptional individual and this is a career-enhancing move and a new experience for him. He just has more than one responsibility now. It is Merchants and Consumer Boards are totally two different businesses and we will report them separately.

Operator

Our next question is from Myles Allsop of UBS

Myles Allsop, UBS

Just a few questions. First of all, are there going to be any further management changes or is this the structure you want to take the business forward?

Jouko Karvinen

This is Jouko. What we announced today is the extension of the Group Executive. We've made up even a small footnote on the North American business area because that's a significant change obviously against the past. John Gillen and I will need some time to sort the specific details out in the next few weeks because that's a bigger change than taking a layer off in Publication and Packaging. It will be direct.

On the lower levels we're right in the middle of the process of nominating the key roles under the Group activity members. If you call it the change, well it's going to happen very rapidly. It has to happen rapidly. We don't have time to reorganise forever. On a different dimension, is this the last time the company will change organisations? No. In fact (and I would plea that we don't start a speculation now on which one I mean) but one of the reasons why I want this very direct and fairly access in the individual businesses and the flat businesses and flat organisation, is also it can be that some of the business areas will not be a part of Stora Enso in the future, or where some other business areas could become a lot bigger and that could lead to some management changes. That's all I can say.

Myles Allsop, UBS

Okay that sounds reasonable. So you are seriously considering closures. It sounds like there's a great sense of urgency there. Can we expect actions to be taken ahead of the key newsprint and magazine price negotiations at the start of next year?

Jouko Karvinen

I'm thinking to make sure I don't say something I shouldn't say. One, I have been ... we have been, we are and we will seriously look into capacity reductions and restructuring calls. We have to. That's the first answer. It's not a new thought. And two, I would not promise you that it's going to be a specific date. If I answer your question directly, yes then you will figure out the day. I would have to stick to my earlier answer where I said it's in months and quarters and not years. But let me add one twist to it. My honeymoon is soon over so I think the actions have to come fairly quickly. Why I'm hesitating a bit to give you anymore specific schedules ... but I am hesitant and I am not going to give you more specific schedules because there is obviously legal implications. Because on restructuring I have a duty to inform my employees and the union way before and I could not say anything very specific before I have my Board approve certain specific actions. But please don't think that we're just talking about it. We're working very hard trying to find also full allegiance for that plant.

Myles Allsop, UBS

Can we start thinking in weeks and months and not months and quarters now?

Jouko Karvinen

You're a resilient guy. Don't take this as a bad joke. I said think in months and quarters. Start thinking more in months than in quarters.

Myles Allsop, UBS

Okay that's great. And now just going back to sort of slightly separate release. You're doing a feasibility study on a test liner machine in Poland. I was just wondering how that kind of fits into the sort of Group strategy going forward and I guess get a census to how likely that new machine is to be built.

Jouko Karvinen

Okay. First of all, without disclosing numbers that we will disclose on October 15 on the industrial packaging that is a good business. I think I will leave it at that. So that will probably support the numbers and under 15s and on the 25th will support the basis on doing a pre-feasibility study on the test liner. The primary objective of that machine would be for our own use. So because there's been concerns about added capacity and so forth. We would take an old machine that would be a part of the capacity out anyway. The final comment then is we will very carefully look at the study and will very carefully look at the outlook on capacity, demand and supply before we make that implementation.

Having said that I think it's very critical that I spend my time, our time and our money on growing businesses that have clearly created value way above cost of capital and have a good prospect of doing it, especially if it's in the areas of the two growth markets of Europe.

Hannu Ryöppönen

It's Hannu here Myles. If I can just add also to that that we have a very strong recycle paper collection organisation in Poland which further supports the wisdom of doing this study because the raw material supply is the key to the success of such an operation.

Myles Allsop, UBS

That's certainly helpful. Maybe just one last question. Could you give us a sense (I know we will get more detail by the 15th) but what proportion of the 1.3b came from North America? Broadly is it sort 50/50 or higher?

Hannu Ryöppönen

It's Hannu here. I cannot give you today that breakdown but I can tell you that the reorganisation in itself is attributed with more than half of the total impairment. That's the extent we will go to now in that respect.

Myles Allsop, UBS

Okay thanks.

Operator

We take a next question from Lars Kjellberg of Credit Suisse. Please go ahead sir.

Lars Kjellberg, Credit Suisse

Most of my questions have been answered. Just a follow-up question on the capacity closures. Jouko you talked about the necessity of combining outfits and creating new entities etc. Is the thought about capacity closures are they linked to new structures or can you do this alone?

Jouko Karvinen

I'll try to be very specific. Point one – it is very cost-synergy driven anyway this whole thinking of consolidation and combination. Not more than market leadership. I said that before but I repeat it. Two – I don't think we can necessarily at all afford to wait until combination and consolidation for the reasons I said before. So I guess I have to say that right now today my thinking very clearly is both will have to happen. They have to happen to some extent in parallel. As nice as it would be to sequence it and do a perfect gain, life is too short and the economy may not carry us long enough. So I see both happening in parallel.

Lars Kjellberg, Credit Suisse

Okay. That's it. Thank you.

Operator

We take a next question from Mikael Jafs from Cheuvreux. Please go ahead.

Mikael Jafs, Cheuvreux

Hello gentlemen. Most of my questions have been answered but I would like to dwell a little bit on the impairment itself. Did I understand correctly if it was so that in the previous organisation you would have netted between, let's say, newsprint and magazine. And now since you are taking the impairment down to lower levels then this netting effect is out and as a consequence then this is a harsher assessment than what it would have been in the old regime. Is that correct to understand?

Hannu Ryöppönen

I think you have answered the question better than I could. It's Hannu here. So that is essentially correct. There are some technical finesse in that but that's really the result of it all. Yes.

Mikael Jafs, Cheuvreux

Okay then a follow-up question. Do you now then have assets or mills that run with zero or very low sort of asset values in your system?

Hannu Ryöppönen

The answer is yes. Also then coming to the other question and the comment I made early. If we would go into a closure and restructuring decision and process, part of that potential asset write-down has already been taking place as part of the impairment charge. In so in that sense you are correct and yes there are assets and mills with very low asset values today.

Mikael Jafs, Cheuvreux

Will we at some point be sort of given those numbers or will we not?

Hannu Ryöppönen

Not at that level. We have never disclosed anything below the segment reporting really in detail. But you will get the attribution of the impairment charges at the segment reporting level when we come out by October 15th.

Maybe just to add to that, in that we will actually then show what capital employed per business area but not at the mill or lower level than that.

Operator

We take a next question from Johan Sjoberg of Carnegie. Please go ahead sir.

Johan Sjoberg, Carnegie

Good afternoon. I have a question regarding the magazine paper market. How much do you estimate the over-capacity in the European magazine paper market to be at the moment given today's exchange rates?

Hannu Ryöppönen

I would like to comment. Jouko may here kick my leg but you won't see it. We are not today making market outlook statements. This is specifically related to our reorganisation and the impairment charges. So we would refrain from making any specific comment to capacity issues.

Jouko Karvinen

Earlier, obviously that correct statement from Hannu, what I said earlier was more related to the basic philosophy I have. I have been very clear also in the second quarter that I am not happy with our magazine performance even though we've been (and even up today) disclose specific numbers until October 15th. I am not happy with the trend and performance and both myself and some of my industry colleagues have commented that the pricing level is not healthy. And I said, well then we have to do something with the cost side because I will not wait until the pricing level gets better. I think that is what my comments were before.

Johan Sjoberg, Carnegie

Okay. Looking also at in terms of potential for capacity closures, would you consider closing capacity at a [far indiscernible] rate than you have done historically?

Jouko Karvinen

I would consider it. I am considering it.

Johan Sjoberg, Carnegie

My final question regarding the impairment test, how have you treated the high-performing assets in your impairment test?

Jouko Karvinen

The way it works, is that if in the impairment test, the test would give a higher value than the book value at the time of the capital employed in a particular relevant unit then there is no write-up. The write-up in connection with the impairment is highly technical and would have to show a permanent long-term improvement. I was asked a question the other day actually by essentially our Board if I have ever seen anything like that in my some 30 year career by now and I have yet to see it. More in connection with M&A transactions and so on, that is where you would have it when you revalue assets basically for now, new goodwill treatment rules under IFRS.

Hannu Ryöppönen

So to be clear we have in this test not written up anything. Let me be very clear we have written down things.

Johan Sjoberg, Carnegie

Okay thank you very much.

Operator

We take our next question from Olof Grenmark of Handelsbanken.

Olof Grenmark, Handelsbanken

Good afternoon. Just a question regarding the timing of this impairment charge. If the outlook now is on change relative to after the Q2 report in terms of pricing and costs as you indicate, why does the impairment charge come today and not after the Q2 report?

Hannu Ryöppönen / Jouko Karvinen (unidentified)

Well in the Q2 report we gave clear signals and I think we got the answers from the market as to somewhat more negative outlook as far as the market is concerned. All of those also on a routine basis even last year would then be reflected in an annual impairment testing that in our case, could take place during the third quarter. In fact more specifically in the month of September we have now put this altogether given that we had the triggering event from the reorganisation. So nothing unusual per se in the way we've done it and it is fully in line with all the IFRS books and regulations.

Olof Grenmark, Handelsbanken

So if I understand it correctly it's just a coincidence that it happened and it was good timing to put it out in connection to this reorganisation. Is that correct?

Hannu Ryöppönen

We quite simply had to because the reorganisation was a so-called triggering event for the test. If we would not have reorganised and we would have maintained the current organisation, we would have an impairment coming in any event at the end of year three but that is now taken care of in this total.

Jouko Karvinen (Unidentified)

It's a legal requirement. I think it's Securities Act Section 7 that says when there is a triggering event like this one you have to disclose it to the market on the day. I don't think any of you would have liked us to do the reorganisation and then come in mid-October and say by the way that reorganisation had this impact.

Olof Grenmark, Handelsbanken

When you give us more information than on October 15th would we get to know for example how much you put up for the wood costs long-term or something like that, or will it just be a distribution among the business areas?

Hannu Ryöppönen

We will do the attribution (i.e. where has this test result come from). Then cutting a cake in other ways in terms of economic impact and so on it's to some extent even very difficult to do on a very specific basis.

Jouko Karvinen

If I can follow up on that before Hannu kicks me on his turn. Let's be very clear. The impairment testing that happens annually we're announcing it today complete for the Q2 tests because of the triggering event. There is no change due to the impairment testing now in the costing books. The cost inflation change we gave you in the second quarter that has been now used with our best expertise in the impairment testing. The business outlook, the pricing outlook, all those inputs to impairment test in this year like last year, come from our short-term estimates and our three year framed strategic financial plan. You do not redo your business planning for impairment testing. They are two separate issues. And to be very clear, the cost inflation change was done in Q2. That's it. We're not changing it today. We're not changing it October 15th.

Hannu Ryöppönen

Also further even, the foreign exchange rates used in the impairment test and getting the Euro total charge is the end of July for an exchange rate that can still move because the final charge actually comes at the end of December when we are finalising this. But that is the period then for an exchange movement impact.

Olof Grenmark, Handelsbanken

Thanks. That's all from me.

Operator

As a reminder, if you would like to ask a question press star one. The next question is from Richard Nilsson of SEB Enskilda.

Richard Nilsson, SEB Enskilda

Good afternoon. I have a couple of questions. First of all if you could elaborate on your pricing assumptions in your impairment testing - if you used your internal estimates or if you've used external consultants? And also roughly where are sort of

your pricing assumptions compared to current pricing. What real price declines have you put in?

Hannu Ryöppönen

I will not comment on the specifics of the pricing assumption but I can say as Jouko mentioned, that all of the assumptions and basis for the calculations are from our three year frame (i.e. that's the basis also for price development) and that was the same principal last year, so there's no change in that respect. These have been tested consistently on an overall Group basis and also reviewed obviously with our auditors so that the logic and so on applies and we will not disclose what those pricing assumptions have been for the test.

Richard Nilsson, SEB Enskilda

Are they your own or external consultant estimates?

Hannu Ryöppönen

They are our own. Basically bottom-up from the business. Obviously checked and tested and so on internally for consistency as well as logic in relation to our business expectations going forward.

Richard Nilsson, SEB Enskilda

At this stage why are you not able to disclose the regional or business areas split up of the impairment?

Hannu Ryöppönen

We are still working to finalise the total numbers and the exact numbers. The 1.3 bn is an estimate although it's reasonably accurate. I don't think you will find hundreds or millions of differences when we come out. And we also want to make sure we can totally redo the historical numbers and then come out with those and confirm them as to what they will be for the third quarter. Remember, that only at the end of September will we also have third quarter foreign exchange rates.

Richard Nilsson, SEB Enskilda

And then also on what do you think the talked about credit crunch which may limit possibilities for private equity to participate in deals or finance deals? What could that mean for your restructuring efforts?

Jouko Karvinen

This is Jouko. I will answer it maybe a little backwards. What it will not mean is that it will change the strategy. But as far as what I can tell you, it could delay some opportunities but I don't think I could change the Group strategy based on a relatively recent and short-term crunch. It doesn't help me but, you know, I have to live with everything. There is no winter. There's Russian duties. Somebody even told me that my tie wasn't very perfect. But I live within the world we live in. Don't worry about that.

Richard Nilsson, SEB Enskilda

Great. And then finally on North America. Would you consider to become both bigger and smaller in North America?

Jouko Karvinen

My primary preferences or concern is becoming significantly more profitable with us telling the numbers in North America. There's been some very good work done but I can assure you that Mr Gillen and the team knows exactly since January 5th that there's a lot more that needs to be done with the cost and the revenue. And I would ask ... that's where I stop because otherwise you say I was speculating with individual units which I will not do.

Richard Nilsson, SEB Enskilda

Great. Thank you very much.

Operator

We have no further questions and would like to hand the call back over to you for any additional closing remarks.

Jouko Karvinen

This is Jouko again. First of all thank you everybody for participating and listening. I am going to have fairly shortly a call with 300 of my top leaders and I will tell them exactly ... I only have one story. We are in a huge hurry. We need to move. We need to move with commonsense and not do stupid things. And I can assure you that I understand that it will not be way too many quarters before I have to talk to you about actions and not the flats.

Thank you.

Operator

That will conclude today's conference call. Thank you for your participation.